

# CBO's Estimates of the President's Budgetary Proposals

**I**n March, the President submitted a budget that intends to eliminate the deficit by 2002. To help ensure that the goal is achieved, the budget includes two sets of policies: one that the Administration estimates will balance the budget if the Administration's economic and technical assumptions prove close to the mark, and a second set that includes contingent policies that would have to be carried out if the Administration's assumptions prove too optimistic and additional deficit reduction is required to balance the budget. To evaluate the President's budget, the Congressional Budget Office compares its estimates of the President's policies with its own baseline as well as with the Administration's projections.

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## The Administration's Proposals

Since the President's budget is intended to balance by 2002, CBO has used economic assumptions consistent with such a plan to evaluate the Administration's policies. CBO's baseline deficit projections, using economic projections that assume the budget will be balanced by 2002 and projecting discretionary spending to grow with inflation, show a deficit in 2002 of \$210 billion. Under the President's basic policies, the deficit would be reduced substantially but would still total \$81 billion in 2002 as estimated by CBO. With

the contingent policies, the President's budget would generate a surplus of \$3 billion in 2002 (see Table 3-1).

The basic policies in the President's budget include holding the growth of discretionary appropriations below the rate of inflation, cutting the growth of Medicare and Medicaid below current-law projections, reducing projected spending for welfare programs, and limiting other mandatory spending. The budget also aims to shrink the deficit by selling government assets and auctioning additional portions of the electromagnetic spectrum. The savings would be partially offset by a net reduction in revenues resulting from a combination of tax cuts and increases.

The package of contingencies calls for the sunset of proposed tax-relief provisions after 2000, additional savings from further restraining Medicare costs, deeper cuts in discretionary spending, and new fees on television broadcasters to offset any shortfall in anticipated receipts from the proposed auction of the right to use the electromagnetic spectrum. Two types of contingencies exist. The first type would be invoked if the deficit in the year 2000 is not at least \$20 billion below CBO's current estimate of the President's policies for that year. If the actual deficit is more than \$85 billion (CBO's estimate of the deficit under the Administration's plan in 2000, \$105 billion, minus \$20 billion), then the tax cut will be reduced or rescinded and further discretionary spending cuts may be enacted. The second type of contingency--

**Table 3-1.**  
**CBO Estimate of the President's Budget (By fiscal year, in billions of dollars)**

	1996	1997	1998	1999	2000	2001	2002	1996-2002
CBO Baseline Deficit <sup>a</sup>	144	165	175	182	191	194	210	n.a.
President's Basic Budgetary Proposals								
Revenues <sup>b</sup>								
Tax relief								
Child tax credit	0	10	8	9	13	13	13	64
Higher education deduction	0	7	6	7	7	7	8	41
Individual retirement account	0	1	1	1	2	4	5	14
Other tax relief	0	1	1	2	2	2	2	9
Subtotal, tax relief	0	18	16	18	23	26	28	129
Extend expired excise taxes	0	-4	-6	-6	-6	-7	-7	-36
Other revenue provisions	-1	-6	-8	-10	-10	-10	-12	-54
Subtotal, revenues	1	8	2	3	7	9	9	38
Outlays								
Medicare	c	-5	-8	-14	-20	-26	-31	-103
Medicaid	0	2	-2	-6	-10	-16	-22	-54
Welfare reform	0	-4	-6	-6	-7	-7	-8	-38
FCC spectrum auction	0	c	-2	-3	-4	-5	-16	-31
Proceeds from asset sales	c	-1	c	c	c	c	-2	-4
Discretionary appropriations	2	-4	-6	-26	-42	-46	-38	-161
Other policy changes	-1	-4	1	-1	-2	-5	-6	-18
Debt service	c	c	-1	-3	-6	-11	-16	-35
Subtotal, outlays	1	-17	-23	-59	-91	-116	-138	-444
Total Changes	2	-9	-21	-57	-84	-107	-129	-405
Deficit Under the President's Basic Budgetary Proposals as Estimated by CBO	146	156	153	125	108	87	81	n. a.
President's Contingent Budgetary Proposals								
Sunset tax relief <sup>c</sup>	0	0	c	c	c	-7	-25	-32
Medicare	0	-1	-1	-2	-2	-3	-3	-13
FCC spectrum auction failsafe	0	0	0	0	0	0	-6	-6
Discretionary appropriations	0	0	0	0	0	-22	-46	-67
Debt service	0	c	c	c	c	-1	-4	-6
Total Changes	0	-1	-2	-2	-2	-33	-84	-124
Deficit Under the President's Budgetary Proposals as Estimated by CBO	146	155	152	123	105	54	-3	n.a.

SOURCE: Congressional Budget Office.

NOTE: FCC = Federal Communications Commission; n.a. = not applicable.

- This baseline is based on economic projections that assume the budget will be balanced by 2002. It assumes that discretionary spending is equal to 1996 appropriations adjusted for inflation up to the caps that are in effect through 1998. General-purpose discretionary spending is equal to the cap in 1998 and grows from that level at the rate of inflation.
- Revenue losses are shown with a positive sign because they increase the deficit.
- Less than \$500 million.

relating to Medicare and spectrum auctions by the Federal Communications Commission (FCC)--would apply if actual savings or revenues from the basic policy changes do not meet some specified amounts.

## Revenues

The President's budget contains a number of initiatives intended to cut taxes for the middle class and to target tax relief for small businesses and others. Partially offsetting the cost of those tax cuts are increases in corporate taxes and an extension of the airline ticket tax and other excise taxes that expired at the end of 1995.

The Joint Committee on Taxation (JCT) estimates that the proposed tax relief for the middle class and other targeted tax breaks would cost \$129 billion over the 1996-2002 period if the cuts continue past 2000. Among the proposals, the tax credit for dependent children would be the most costly component of the plan. Under that proposal, families would receive an income tax credit for each dependent child under age 13. The credit would start at \$300 per child in tax years 1996 through 1998, and rise to \$500 per child in 1999 and beyond. It would be phased out for taxpayers with adjusted gross incomes (AGI) between \$60,000 and \$75,000. Beginning in 2000, the credit and phaseout range would be indexed for inflation. Over the seven-year period, the tax credit for dependent children would cost \$64 billion.

The tax deduction for education and job training would cost the government \$41 billion during the projection period by granting a \$5,000 a year deduction for qualifying education and training expenses. Tuition and fees paid to postsecondary educational or vocational institutions would qualify for the credit if the institution is allowed to participate in the student loan program. Starting in 1999, the deduction would rise to \$10,000. The deduction would be phased out for single taxpayers with modified AGI between \$70,000 and \$90,000 (\$100,000 and \$120,000 for joint returns). The ranges of the phaseout--but not the maximum deduction--would be indexed for inflation beginning in 2000.

Expanding the eligibility for deductible contributions to individual retirement accounts (IRAs) and adding a new, special IRA would reduce revenues by \$14 billion over seven years. Under current law, a participant in an employer-sponsored retirement plan cannot deduct IRA contributions if his or her income is above \$35,000 (\$50,000, if married). The proposal would raise the income limit to \$70,000 (\$100,000, if married) by 1999 and would then index the limit for inflation. The limit on contributions of \$2,000 would be indexed for inflation in \$500 increments after 1996. Taxpayers eligible for a deductible IRA could invest in a special IRA instead. Contributions to special IRAs would not be deductible, but distributions would be tax-free.

Offsetting around two-thirds of the cost of the President's proposed tax cuts would be the reimposition of the airline ticket tax and other expired excise taxes (\$36 billion in revenue over seven years) and other tax provisions, mostly corporate tax increases (\$54 billion in revenue over seven years). Among those other tax proposals are provisions to deny the interest deduction for loans taken against company-owned life insurance policies, modifying carryback and carryforward rules for losses, extending the Federal Unemployment Tax Act surcharge that expires at the end of 1998, and reinstating the Superfund corporate environmental tax, which has already expired.

Under CBO's assumptions, the tax contingency would force tax cuts for the middle class and other adjustments to expire after 2000. In that case, revenues would increase by \$7 billion in 2001 and \$25 billion in 2002 relative to keeping the tax cuts in place.

## Outlays

The Administration has proposed major reductions in outlays, totaling \$444 billion between 1996 and 2002. The largest set of entitlement proposals in the budget can be found in Medicare, but sizable savings are suggested in Medicaid and welfare programs as well. Large cuts are also assumed from restricting discretionary appropriations.

**Medicare.** The President's budget contains a wide range of proposals to slow the growth in Medicare spending and improve the financial status of the Hospital Insurance (HI) trust fund. CBO estimates that those proposals, including a contingent one, would save \$116 billion over the 1997-2002 period.

The bulk of the savings in the President's plan would stem from curtailing payments to providers of health care services. The budget would limit increases in payment rates for hospitals and physicians, reduce payments for the indirect costs of medical education, put in place interim payment reforms for home health care and skilled nursing facilities, and freeze or reduce payments for durable medical equipment and ambulatory surgical centers.

Premiums paid by beneficiaries for Supplementary Medical Insurance (SMI) would be larger compared with current law beginning in 1999--increasing receipts to the government by \$6 billion from 1999 through 2002. Under current law, SMI premiums are set at 25 percent of program costs through calendar year 1998 and will increase thereafter at the rate of the Social Security cost-of-living adjustment (approximately 3 percent a year). Under the President's proposal, premiums would remain linked to program costs after 1998, thereby rising at about 9 percent a year. In 2002, the projected SMI premium would be \$54.70 under current law and \$63.60 under the President's proposal.

The President proposes to expand the types of managed care plans available to Medicare beneficiaries to include preferred provider organizations, provider-sponsored networks, and other organizational forms. Beneficiaries would be given comparative information about the managed care and fee-for-service choices available to them, and they would be able to select one of those options during an annual open-enrollment period. As under current law, Medicare's payments to managed care plans would remain linked to the average annual per capita cost in Medicare's fee-for-service sector.

The budget would also shift payments for certain home health services from the Hospital Insurance program to Supplementary Medical Insurance (SMI). The additional home health spending, however, would be excluded from the calculation of SMI pre-

miums paid by beneficiaries. Over the 1997-2002 period, that shift would reduce HI spending by \$55 billion, increase SMI spending by the same amount, and have no effect on the budget totals. Under current law, the HI trust fund is projected to become insolvent in 2001. CBO estimates that the Administration's proposals would postpone this date to 2005.

The contingent policy identified for Medicare is included because the Administration expected that CBO would estimate less savings from the President's proposals than the Administration itself. Therefore, to close the gap between the two estimates, the Administration added one further measure to reduce Medicare outlays. The proposal, which would eliminate the formula-driven overpayment for certain outpatient hospital services, is not triggered as is the revenue contingency, but would automatically become effective in 1997. Under current law, the formula used to reimburse hospitals for some outpatient services does not take into account copayments made by beneficiaries. The provisional policy would reduce Medicare spending by requiring that such copayments be deducted later in the reimbursement calculation. Overall, the Medicare contingency would save \$13 billion.

**Medicaid.** The President's budget would achieve savings by establishing per beneficiary (also known as per capita) caps on federal payments to states and limiting the growth of those caps. The budget also proposes to reduce payments to hospitals that serve a large proportion of Medicaid and uninsured patients (known as disproportionate share payments), while retargeting those payments to the hospitals with the highest proportion of such patients. CBO estimates that all of the Medicaid initiatives together would save \$54 billion through 2002.

**Welfare Reform.** The Administration's welfare reform proposals encompass a myriad of programs. The largest savings are proposed in Food Stamps and Supplemental Security Income (SSI). Lowering maximum benefits and reducing the standard deduction (the amount each household can deduct from its income before benefits are calculated), along with other changes in the Food Stamp program, would save nearly \$4 billion in 2002. Tightened eligibility standards for disabled children receiving SSI, stiffer deeming provisions (under which agencies weigh the

income and assets of a sponsor--usually a relative--who signed a promise of support when an immigrant entered the country), and other program modifications would save another \$3 billion in SSI in 2002. Along with the abovementioned Food Stamp and SSI proposals, various changes to child nutrition programs, earned income credit (EIC), Aid to Families with Dependent Children, and other welfare programs would save \$38 billion over seven years.

**Auctions.** The President proposes to extend and broaden the FCC's authority to auction licenses to use the electromagnetic spectrum for communication purposes. The Administration also proposes to reallocate and auction bands of spectrum that are commercially attractive and to accelerate the FCC's plan to introduce digital technology for television broadcasting, thereby making additional frequencies available for auction during 2002. In addition, the President's budgetary proposal would grant the FCC authority to assign by auction or charge a fee for toll-free "888" telephone numbers, and directs the commission to begin that assignment procedure in 1997. In total, those actions are expected to bring in \$31 billion in offsetting receipts over the projection period.

Another contingent policy builds a failsafe mechanism into expected receipts from the FCC's auctions of spectrum that will be available for licensing as a result of the President's proposal to accelerate the transition of television broadcasting to digital transmission. If auction receipts turn out to be less than \$17 billion in total, the FCC would place a fee on the broadcasters that originally received a digital slot for free. Fees would be assessed as necessary in 2002, and broadcasters that failed to pay would not have their licenses extended beyond 2003. CBO calculates the value of the safeguard at about \$6 billion.

**Asset Sales.** One-time sales of government assets such as the U.S. Enrichment Corporation and the Elk Hills Naval Petroleum Reserve are expected to raise \$4 billion through 2002.

**Discretionary Appropriations.** The President's budget proposes to hold discretionary spending below the cap levels in 1997 and 1998 and then extend the caps, which currently expire in 1998, through 2002. Savings generated by restricting discretionary

spending for another four years would total \$161 billion relative to CBO's baseline adjusted for inflation.

Focusing on 1997, the President's budget proposes an increase of only \$2 billion in budget authority above the 1996 level, which would be \$4 billion less than the amount estimated by CBO to be needed to keep pace with inflation. The \$2 billion increase, however, masks a proposed increase of \$12 billion in nondefense discretionary authority offset by a decrease of nearly \$10 billion in defense appropriations (see Table 3-2). Education programs would receive \$5 billion more than appropriated in 1996 while income-security programs, such as housing and welfare assistance, as well as justice programs would also benefit from the reallocation away from defense.

Further reductions in discretionary spending would occur by invoking the contingent policy directing discretionary spending to be cut further to ensure balance in 2002, according to CBO's calculations. An additional \$67 billion in cuts would be necessary (on top of the \$161 billion already specified) to reach the President's target.

**Other Policy Changes and Net Interest.** Other policy changes, as shown in Table 3-1, including reductions in spending for education and veterans' benefits, would save \$18 billion over seven years. Interest savings on all policy changes would reduce outlays by another \$35 billion throughout the projection period. The contingent policies in the Administration's budget would save an additional \$4 billion in net interest in 2002.

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## Differences Between CBO and Administration Estimates

Using its economic projections that assume a balanced budget, CBO estimates that the basic policies proposed in the President's budget would lower the deficit from its current levels but would not be sufficient to balance the budget in 2002. Under those assumptions, invoking the President's contingent budgetary proposals would be necessary to achieve a balanced budget six years from now.

As shown in Table 3-3, the Administration estimates that its budgetary proposals would change the federal government's fiscal situation from a \$146 billion deficit in 1996 to a \$44 billion surplus in 2002. In contrast, CBO estimates that, under the President's basic policies, the deficit would decrease to \$81 billion in 2002. Most of CBO's reestimate of the deficits reflects differing views of the revenues and out-

lays that would occur under current laws and policies. CBO separates its reestimates of the Administration's budget into two categories: those reestimates that result from differences in economic assumptions and those that result from technical estimating differences. In 2002, economic differences account for around two-thirds of the \$125 billion difference between CBO's estimate of the deficit under

**Table 3-2.****The Administration's Proposals for Discretionary Spending in Fiscal Year 1997 (In billions of dollars)**

Category	CBO Baseline with Discretionary Spending Frozen at 1996 Level <sup>a</sup>		President's Budget as Estimated by CBO		President's Budget Minus Freeze Level	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Defense	265	266	255	262	-10	-4
International	18	20	19	20	1	b
Domestic						
General science, space, and technology	17	17	18	17	1	b
Energy	5	5	5	5	b	b
Natural resources and environment	21	21	21	22	1	b
Agriculture	4	4	4	4	b	b
Commerce and housing credit	3	3	3	3	b	b
Transportation	14	37	13	37	-1	b
Community and regional development	10	11	9	11	-2	-1
Education, training, employment, and social services	37	39	42	40	5	2
Health	23	23	24	24	1	1
Medicare	3	3	3	3	b	b
Income security	28	39	30	40	2	1
Social Security	b	3	b	3	b	b
Veterans' benefits	18	19	19	19	1	b
Administration of justice	21	19	23	21	3	2
General government	12	11	13	12	1	1
Subtotal	216	255	227	260	11	5
Total Discretionary Spending	499	541	502	542	2	1

SOURCE: Congressional Budget Office.

a. Incorporates the effect of the Omnibus Consolidated Rescissions and Appropriations Act of 1996.

b. Less than \$500 million.

the President's policies and the Administration's estimate.

## Economic Reestimates

Although the Administration's economic assumptions and CBO's projections assuming a balanced budget

appear to be quite similar, the differences are sufficient to produce a noticeable variation in budget projections (see Table 1-9 on page 25). Most of those economic reestimates are on the revenue side of the budget. Revenue projections depend highly on the presumed level of gross domestic product. CBO's estimates of GDP growth are about 0.2 percentage points lower each year over the estimating period

**Table 3-3.**  
**CBO Reestimate of the President's Budgetary Proposals (By fiscal year, in billions of dollars)**

	1996	1997	1998	1999	2000	2001	2002
Deficit Under the President's Budgetary Proposals as Estimated by the Administration	146	140	98	64	28	-8	-44
Economic Reestimates							
Revenues <sup>a</sup>	9	24	35	44	54	65	73
Outlays							
Discretionary	b	b	0	b	b	b	b
Mandatory	b	2	3	4	5	6	6
Net interest	<u>b</u>	<u>1</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>3</u>	<u>4</u>
Subtotal, outlays	b	3	7	7	8	9	11
Subtotal, economic reestimates	9	27	42	51	62	74	84
Technical Reestimates							
Revenues <sup>a</sup>	-10	-6	-5	-10	-10	-12	-13
Outlays							
Discretionary	-7	b	1	1	1	1	3
Mandatory							
Medicare	2	3	4	4	6	5	6
Medicaid	1	1	2	4	7	7	13
Other	<u>8</u>	<u>-11</u>	<u>7</u>	<u>4</u>	<u>6</u>	<u>8</u>	<u>16</u>
Subtotal, mandatory	10	-7	14	12	18	21	35
Net interest	<u>-1</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>b</u>	<u>-1</u>
Subtotal, outlays	1	-6	17	15	20	22	37
Subtotal, technical reestimates	-9	-12	11	5	10	10	24
Debt Service	<u>b</u>	<u>b</u>	<u>2</u>	<u>5</u>	<u>8</u>	<u>12</u>	<u>17</u>
Total Reestimates	b	16	55	61	80	95	125
Deficits Under the President's Basic Budgetary Proposals as Estimated by CBO	146	156	153	125	108	87	81

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

a. Revenue losses are shown with a positive sign because they increase the deficit.

b. Less than \$500 million.

than the Administration's. Those small differences cumulate over time into relatively large budgetary differences--accounting for almost half of the economic reestimates for revenues. Differences in income shares account for most of the remainder. CBO projects that less income will be earned in the form of profits and wages, while more will be interest income, thereby lowering estimates of income and payroll tax receipts. The effect of lower incomes, reinforced by CBO's projection that a smaller share of GDP will be received as profits and wages, leads to a \$73 billion revenue reestimate in 2002.

CBO's economic assumptions also increase its projection of spending compared with that of the Administration, though by far less than the reduction in revenues. Much of the economic difference on the outlay side is the result of different projections for interest rates. CBO's short-term rates over the long run are lower than the Administration's--3.7 percent versus 4.0 percent for 91-day Treasury bills. However, CBO's long-term rates for most of the period are higher by an equal amount (5.3 percent versus 5.0 percent for 10-year Treasury notes). Since nearly three-quarters of debt is held in medium- to long-term securities, the effect of that interest rate difference causes CBO's projections to be more than \$4 billion higher than the Administration's in 2002.

Further differences in outlays stem from assumptions about the unemployment rate and growth in the consumer price index. CBO's projections of the unemployment rate are 0.3 points above the Administration's from 1997 onward. That difference pushes up CBO's estimate of unemployment benefit payments by \$1 billion per year over the same time period. Because it projects a more rapid increase in the consumer price index, CBO estimates that the cost of indexed benefit programs--for example, Social Security, SSI, and EIC--will also be higher.

## Technical Reestimates

Estimating differences unrelated to economic assumptions add to CBO's estimates of the deficits under the President's budgetary policies from 1998 through 2002, while reducing them in 1996 and 1997.

Technical reestimates increase CBO's projections of revenues in most years between 1996 and 2002. Differences in projected spending, however, overshadow revenue effects, pushing the projected deficit \$37 billion higher in 2002 than under the Administration's assumptions. Much of the difference in projected spending can be found in the Medicare and Medicaid programs. Although CBO believes that the growth in those programs has slowed from the extremely high rates of recent years, it is not quite as optimistic as the Administration about the slowdown.

Various other discrepancies lead to technical differences between CBO and the Administration. Different assumed participation in programs such as SSI, Food Stamps, and EIC lead to an increase in outlays of up to \$4 billion by 2002. Differences in assumed dates of enactment of legislation proposed by the Administration affect estimates of spending by the Savings Association Insurance Fund. Similarly, different assumed dates for rate hikes cause CBO's estimates of postal service outlays to differ from the Administration's by between -\$2 billion and \$3 billion a year.

CBO's estimates of interest on the debt are higher than the Administration's partly because CBO projects higher deficits. By 2002, debt-service costs from the abovementioned economic and technical differences add \$17 billion to CBO's reestimates of the President's budget.

## Baseline Differences Between CBO and the Administration

Overall, most of the differences between the Administration's deficit estimates and those of CBO stem from differences in the two baselines, apart from any policy proposals to be evaluated. Assuming current services are maintained, differences in projections between the Administration and CBO become quite large (see Table 3-4). By 2002, CBO's revenue projections are \$55 billion lower than the President's, notwithstanding any policy proposals.

On the outlay side of the budget, CBO's baseline for mandatory spending exceeds the Administration's by \$26 billion in 2002. Chief among those baseline



**Table 3-4.**  
**Major Baseline Estimating Differences Between the Administration and CBO**  
**(By fiscal year, in billions of dollars)**

	1996	1997	1998	1999	2000	2001	2002
<b>Revenues</b>							
Administration Baseline	1,428	1,501	1,579	1,654	1,738	1,825	1,916
Differences							
Economic	-9	-24	-35	-44	-54	-65	-73
Technical	<u>10</u>	<u>8</u>	<u>7</u>	<u>11</u>	<u>12</u>	<u>16</u>	<u>19</u>
Total	b	-16	-28	-33	-42	-49	-55
CBO Baseline	1,428	1,485	1,551	1,622	1,697	1,776	1,861
<b>Mandatory Outlays</b>							
Administration Baseline <sup>a</sup>	800	863	918	981	1,045	1,102	1,175
Differences							
Social Security	b	b	b	1	1	2	2
Medicare	1	2	2	2	2	1	1
Medicaid	1	3	4	5	5	6	7
Supplemental Security Income	b	1	1	2	3	3	5
Unemployment compensation	b	1	1	2	2	2	2
Agriculture programs	b	2	3	3	3	4	4
Spectrum auctions	-1	-10	-1	b	0	0	0
Other	<u>-5</u>	<u>-1</u>	<u>6</u>	<u>1</u>	<u>3</u>	<u>6</u>	<u>5</u>
Total	-2	-2	16	15	19	24	26
CBO Baseline <sup>a</sup>	797	861	935	995	1,064	1,125	1,201
<b>Net Interest Outlays</b>							
Administration Baseline	241	239	239	241	241	245	248
Differences							
Economic	b	1	4	3	3	4	5
Technical	-1	2	1	b	-1	-4	-5
Debt service	<u>b</u>	<u>b</u>	<u>1</u>	<u>3</u>	<u>5</u>	<u>7</u>	<u>11</u>
Total	-2	3	7	6	6	7	10
CBO Baseline	240	242	245	247	247	251	258

SOURCE: Congressional Budget Office.

a. Includes offsetting receipts

b. Less than \$500 million.

**Table 3-5.**  
**CBO Estimate of the President's Budget Without Contingencies (By fiscal year)**

	1996	1997	1998	1999	2000	2001	2002
<b>In Billions of Dollars</b>							
Revenues	1,428	1,477	1,549	1,619	1,690	1,767	1,852
Outlays							
Discretionary							
Defense	264	262	257	259	264	267	279
Domestic and international	269	278	278	273	267	276	293
Violent Crime Reduction Trust Fund	<u>1</u>	<u>3</u>	<u>5</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>5</u>
Subtotal, discretionary	534	542	540	537	537	550	576
Mandatory							
Social Security	348	365	383	402	422	444	467
Medicare	197	210	228	243	260	279	301
Medicaid	96	107	114	121	128	135	145
Other	<u>235</u>	<u>252</u>	<u>271</u>	<u>278</u>	<u>294</u>	<u>297</u>	<u>311</u>
Subtotal, mandatory	875	935	996	1,044	1,105	1,155	1,224
Offsetting receipts <sup>a</sup>	-75	-85	-79	-81	-87	-92	-111
Net interest	<u>240</u>	<u>242</u>	<u>245</u>	<u>244</u>	<u>242</u>	<u>242</u>	<u>244</u>
Total Outlays	1,574	1,633	1,702	1,744	1,797	1,855	1,934
Deficit	146	156	153	125	108	87	81
<b>As a Percentage of GDP</b>							
Revenues	19.1	18.8	18.8	18.7	18.6	18.6	18.5
Outlays							
Discretionary							
Defense	3.5	3.3	3.1	3.0	2.9	2.8	2.8
Domestic and international	3.6	3.5	3.4	3.2	2.9	2.9	2.9
Violent Crime Reduction Trust Fund	<u>b</u>	<u>b</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>b</u>
Subtotal, discretionary	7.1	6.9	6.6	6.2	5.9	5.8	5.8
Mandatory							
Social Security	4.6	4.7	4.7	4.7	4.7	4.7	4.7
Medicare	2.6	2.7	2.8	2.8	2.9	2.9	3.0
Medicaid	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Other	<u>3.1</u>	<u>3.2</u>	<u>3.3</u>	<u>3.2</u>	<u>3.2</u>	<u>3.1</u>	<u>3.1</u>
Subtotal, mandatory	11.7	11.9	12.1	12.1	12.2	12.1	12.3
Offsetting receipts <sup>a</sup>	-1.0	-1.1	-1.0	-0.9	-1.0	-1.0	-1.1
Net interest	<u>3.2</u>	<u>3.1</u>	<u>3.0</u>	<u>2.8</u>	<u>2.7</u>	<u>2.5</u>	<u>2.4</u>
Total Outlays	21.0	20.8	20.7	20.2	19.8	19.5	19.4
Deficit	2.0	2.0	1.9	1.4	1.2	0.9	0.8

SOURCE: Congressional Budget Office.

a. Includes asset sales.

b. Less than 0.05 percent.

**Table 3-6.**  
**CBO Estimate of the President's Budget with Contingencies (By fiscal year)**

	1996	1997	1998	1999	2000	2001	2002
<b>In Billions of Dollars</b>							
Revenues	1,428	1,477	1,549	1,619	1,690	1,775	1,877
Outlays							
Discretionary							
Defense	264	262	257	259	264	267	279
Domestic and international	269	278	278	273	267	276	293
Violent Crime Reduction Trust Fund	1	3	5	6	6	6	5
Unspecified reductions	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-22</u>	<u>-46</u>
Subtotal, discretionary	534	542	540	537	537	528	530
Mandatory							
Social Security	348	365	383	402	422	444	467
Medicare	197	209	227	241	258	276	297
Medicaid	96	107	114	121	128	135	145
Other	<u>235</u>	<u>252</u>	<u>271</u>	<u>278</u>	<u>294</u>	<u>297</u>	<u>311</u>
Subtotal, mandatory	875	933	995	1,042	1,103	1,152	1,220
Offsetting receipts <sup>a</sup>	-75	-85	-79	-81	-87	-92	-117
Net interest	<u>240</u>	<u>242</u>	<u>244</u>	<u>244</u>	<u>242</u>	<u>241</u>	<u>240</u>
Total Outlays	1,574	1,632	1,700	1,742	1,795	1,829	1,874
Deficit	146	155	152	123	105	54	-3
<b>As a Percentage of GDP</b>							
Revenues	19.1	18.8	18.8	18.7	18.6	18.6	18.8
Outlays							
Discretionary							
Defense	3.5	3.3	3.1	3.0	2.9	2.8	2.8
Domestic and international	3.6	3.5	3.4	3.2	2.9	2.9	2.9
Violent Crime Reduction Trust Fund	b	b	0.1	0.1	0.1	0.1	b
Unspecified reductions	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-0.2</u>	<u>-0.5</u>
Subtotal, discretionary	7.1	6.9	6.6	6.2	5.9	5.5	5.3
Mandatory							
Social Security	4.6	4.7	4.7	4.7	4.7	4.7	4.7
Medicare	2.6	2.7	2.8	2.8	2.8	2.9	3.0
Medicaid	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Other	<u>3.1</u>	<u>3.2</u>	<u>3.3</u>	<u>3.2</u>	<u>3.2</u>	<u>3.1</u>	<u>3.1</u>
Subtotal, mandatory	11.7	11.9	12.1	12.1	12.2	12.1	12.2
Offsetting receipts <sup>a</sup>	-1.0	-1.1	-1.0	-0.9	-1.0	-1.0	-1.1
Net interest	<u>3.2</u>	<u>3.1</u>	<u>3.0</u>	<u>2.8</u>	<u>2.7</u>	<u>2.5</u>	<u>2.4</u>
Total Outlays	21.0	20.8	20.7	20.2	19.8	19.2	18.8
Deficit	2.0	2.0	1.8	1.4	1.2	0.6	b

SOURCE: Congressional Budget Office.

a. Includes asset sales.

b. Less than 0.05 percent.

differences are projections in Medicaid spending. Although CBO and the Administration are basically in agreement over projections for current services for Medicare, CBO projects that greater participation rates in Medicaid, among other factors, will cost an additional \$7 billion over the President's estimate in 2002. CBO also projects that agriculture programs will cost more than the Administration projects. By 2002, lower export demand and lower prices for agricultural commodities are projected to boost spending on farm price supports by \$4 billion more than assumed by the President. The largest single difference between the two baselines occurs in 1997 as updated estimates based on recent trends in spectrum auctions pushes CBO's projections on auction receipts \$10 billion above the Administration's.

Baseline differences in net interest, mainly resulting from debt-service costs because of different deficit projections, cause CBO's estimate of net interest to be \$10 billion greater than the Administration's in 2002.

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## Estimates of the Budget Aggregates

Under the President's budget, revenues increase from \$1.4 trillion to \$1.9 trillion, while outlays rise from \$1.6 trillion to \$1.9 trillion from 1996 through 2002 (see Table 3-5 on page 66). As a percentage of GDP, however, both revenues and outlays decline throughout the projection period. Revenues as a share of GDP drop around half of a percentage point to 18.5

percent of GDP, while outlays decline a point and a half to 19.4 percent of GDP. If the contingent policies are included, both revenues and outlays would account for 18.8 percent of GDP in 2002 (see Table 3-6 on page 67).

Discretionary spending bears the brunt of the President's cuts, maintaining a relatively constant level of outlays through 2000, before rising to \$576 billion in 2002. If the contingencies are invoked, however, discretionary spending would drop to \$530 billion in 2002--a 23 percent cut in real terms from its 1995 level.

Relative to a freeze at the 1996 levels of appropriations, discretionary spending would be higher under the President's budget. However, the gap between the two would be small if the contingencies were invoked. Under the President's policies (including the contingencies), discretionary outlays would only be \$9 billion above the freeze level in 2002.

The growth in mandatory spending would be relatively tame over the seven-year period. It creeps up from 11.7 percent of GDP in 1996 to 12.3 percent in 2002 (12.2 percent with contingencies included). The combination of declining deficits and lower interest rates as a result of balancing the budget would keep net interest outlays steady at around \$240 billion each year through 2002.

The Administration's basic set of policies would reduce the deficit from 2 percent of GDP in 1996 to less than 1 percent in 2002. If the contingent policies are included, a small surplus would result.